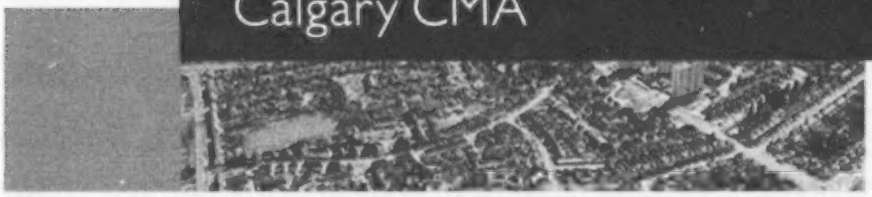
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Calgary CMA



Canada Mortgage and Housing Corporation

Date Released: Fall 2008

NEW HOME MARKET

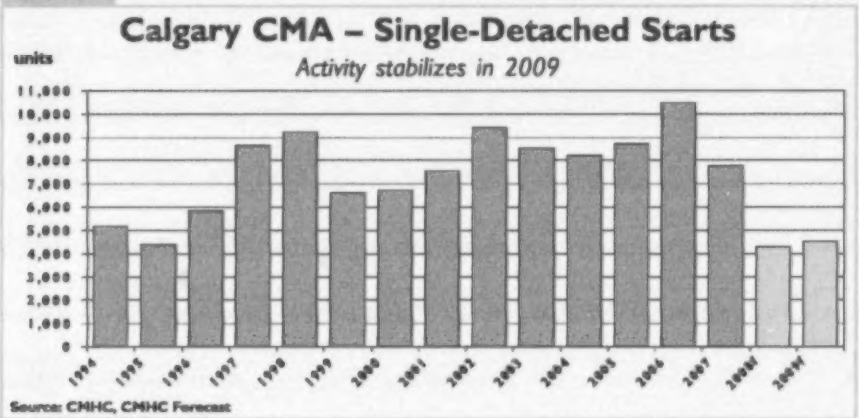
Single-Detached Construction to Improve in 2009

Single-detached starts will reach 4,300 units in 2008, down 45 per cent from the 7,777 units started in 2007. By 2009, much of the overhang of inventory should be reduced. As well, the prolonged sales process caused by price volatility in 2008 will improve in 2009 with lower inventory levels and this will stabilize house prices. As a result, the process of buying a new home should become more efficient. Existing home sellers should be able to sell their home quicker and with more price certainty in 2009. New construction will also rise as builders become more confident and replenish inventories. These factors will allow for a modest rebound taking single-detached starts to a forecasted 4,500 units in 2009.

Figure 1

Calgary CMA – Single-Detached Starts

Activity stabilizes in 2009



Source: CMHC, CMHC Forecast

Table of contents

1-3 New Home Market
Single-detached starts to improve in 2009, while multi-family starts will be lower.

3-4 Resale Market
Movement towards balanced conditions in 2009.

5-6 Rental Market
A moderation in net migration has allowed vacancy rates in Calgary to drift higher.

6-7 Economy
The economy continues to generate jobs.

7 Mortgage Rate Outlook

8 Forcast Summary

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HOME TO CANADIANS

Single-detached construction has been weaker this year in the face of weaker net migration, price escalation from previous years, and elevated inventories in the competing resale market. Year-to-date August, single-detached starts were 43 per cent below the first eight months of 2007. The weakness in single-detached starts will continue over the duration of the year due to stiff competition from the resale market in a lower demand environment. Efforts to reduce new home inventories will also hold back production over the balance of this year. The number of speculative single-detached units completed and not absorbed rose to 275 units in August, a rapid increase from the 19 units of completed and not absorbed inventory a year earlier.

Since February 2008, when we began to track speculative units under construction, spec units being built have fallen from over 15 per cent of the single-detached units under construction to about six per cent by August 2008. The management of production by builders will help move the market into more balanced conditions. Even with speculative new construction being reduced by builders, newly built homes for resale will need to be eroded by demand and this will take time. At the end of August, there were 8,398 active listings on MLS® of single detached homes in the City of Calgary. Industry sources indicate of these 1,139 were vacant with 400 of those vacant being new. In other words, approximately seven per cent of the active listings in the resale market are newly completed single-detached homes.

New House Price Index (NHPI) to Decline

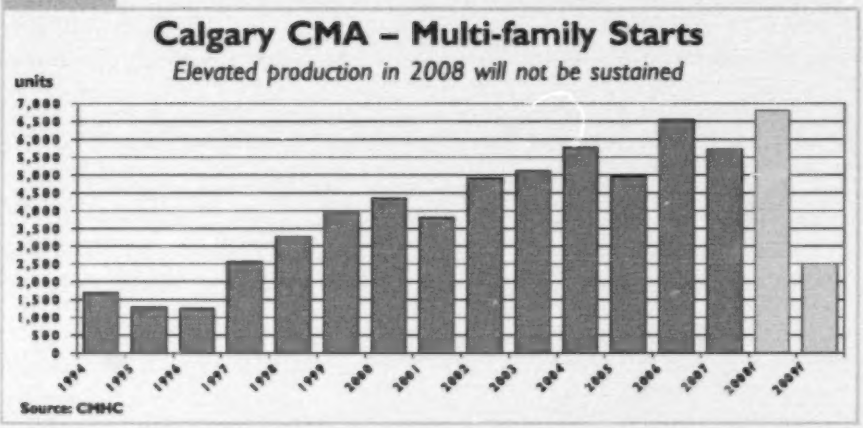
After an increase of 43.6 per cent in 2006, the growth in NHPI moderated to 16.2 per cent in 2007 and is projected to end this year just one per cent higher than last year. Lower demand from the United States for construction materials has caused some input costs to decline, most notably the price of softwood lumber and gypsum wallboard. The number of single-detached units under construction in the Calgary CMA is close to half the level reported a year earlier. As home builders resize their organization, contractor bids going forward will likely be more competitive. Land values will also be re-priced as it is already occurring for infill properties in established city neighborhoods. As a result of these dynamics, the NHPI for Calgary is forecasted to show a decline of 2.5 per cent in 2009. These developments will cause the average absorbed price of a newly built single-detached home to slip from $575,000 in 2008 to $564,000 in 2009.

Multi-family Starts Lower in 2009

Year-to-date August, multi-family starts of 6,195 units have already exceeded the 5,728 annual production in 2007. After a surge in the first part of 2008, there are signs that new multi-family construction is slowing rapidly. Several high rise condominium projects appear to be halted as the cranes for these developments have been removed with no workers on site. The presales' level needed for construction financing has become stringent in this very competitive market place that favours buyers. New development will slow as a result of changes in the lending environment and a lower level of demand. The City of Calgary reported only four apartment building permit units issued over the two months that included July and August. At the end of August, the number of apartment building permits approved but not started amounted to 3,678 units. It is projected that many project plans will be delayed until market conditions improve. Nevertheless, multi-family starts in 2008 are projected to reach 6,800 units, 19 per cent higher than production in 2007.

In order to re-balance in the coming year, the multi-family market will require a drop in new supply. Competing with condominium presales are vacant and new condominium units listed on the resale market – many likely bought and being sold by investors. At the end of August, MLS® condominium active listings in the City of Calgary amounted to 2,699 units. Sources from industry indicate of these listings 794 units were vacant. The vacant and new units amounted to approximately eight per cent of all active listings. However, unlike the single-detached market where construction levels are down by more than 50 per cent from peak, multi-family units under construction are close to the zenith

Figure 2



of 11,915 set in May 2008. At the end of August, 11,187 multi-family units were under construction, up 25 per cent from August 2007.

In 2009, multi-family starts are projected to drop 63 per cent to 2,500 units. Multi-family builders will reduce supply in this very competitive environment that favours buyers. Until supply levels are drawn down considerably in the new and resale markets, condominium buyers will have an advantage over the sellers. The record number of units under construction this year will need to be completed and absorbed as will new product on the resale market. If supply continues to grow beyond demand, pricing will likely come under additional downward pressure and undermine the pricing structure of those new units not yet sold. Consequently, the reduction that will be experienced going forward will begin to improve market conditions for condominiums. Considering the elevated level of condominium supply and lower level of demand, it may take until 2010 before the condominium market becomes balanced.

RESALE MARKET

Demand for Resale Homes Stabilizing

Calgary's resale market favoured buyers this year because of a lower level of demand and an expanding level of supply that reached a record high in May 2008. Buyers' market conditions will not last forever. An examination of data reveals that the level of supply has likely peaked for this year and CMHC is forecasting a return to more balanced conditions in 2009. As active listings come down relative to demand, price stability is expected to be restored. For those that do not own a home, affordability for home ownership has improved. Using the average price for August 2008, the monthly amortization cost for a single-detached unit and condominium unit have decreased by over 10 per cent as compared to August 2007. Demand is also projected to increase in 2009 as net migration is forecasted to improve in 2009. As a result, resales are expected to rebound in 2009 to 25,700 sales, up about three per cent from 2008.

Year-to-date August 2008, total resales have dropped by 29 per cent as compared to the same period in 2007. A lower level of inter-provincial net migration, price escalation from previous years, and recent price volatility impacted demand in 2008. With prices below the peak of 2007, the environment for investor transactions has also

Figure 3

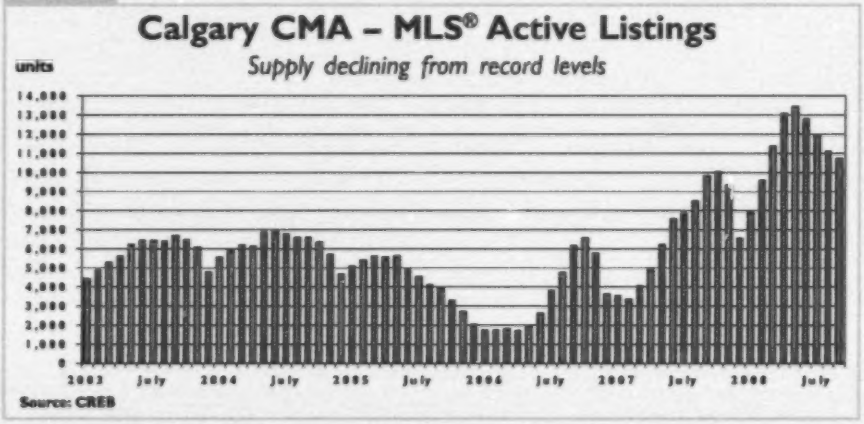
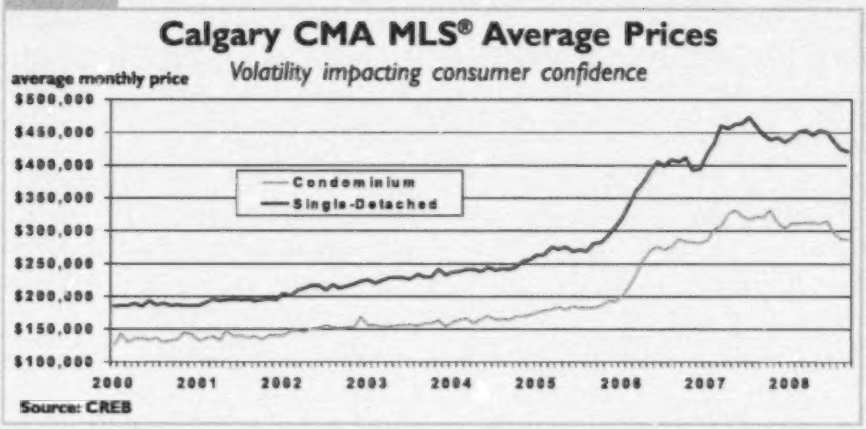


Figure 4



been reduced, as has the likely flow of investor money into the market. By year end 2008, MLS® sales are expected to reach 25,000 units, down 22 per cent from 2007.

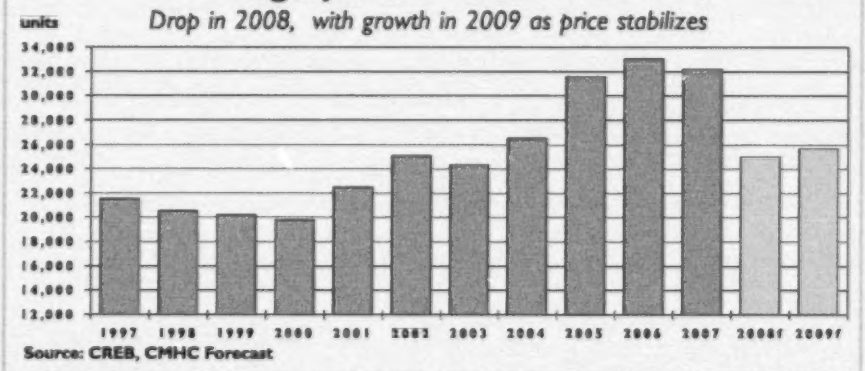
After eight months, sales of single-detached resale homes in the Calgary CMA were lower by 26 per cent as compared to the same period in 2007. A high level of listings relative to sales brought the monthly average price in August to $423,950, down 7.5 per cent year-over-year. At the end of August there were 5.6 months of supply or almost six sellers for each buyer. The supply and demand imbalance is expected to improve in 2009. With housing starts cut in 2008, fewer new homes will show up on the resale market. There is a sign demand has picked-up as the year-over-year sales drop of 16.5 per cent in August is an improvement compared to the year-to-date reduction of 26 per cent. The market for single-detached resale homes is projected to move into balanced conditions by the summer of 2009.

The return to balanced conditions in the condominium market will likely take longer than for the single-detached market. Supply levels in the resale market for condominiums and single-detached units are similar relative to demand but production of new condominiums will reach a record high this year and these units will need to be absorbed when projects are completed. A significant number of these new condominium units will likely be listed for sale in the resale market. It may take until 2010 before the condominium supply level is eroded to a level that returns this market to balanced conditions. In August 2008, it took an average of 58 days to sell a condominium, more than 23 days longer than it did in August 2007. The extended period of time to sell has caused some sellers to re-price their units and this has moved the August average sale price to $287,832, down over 10 per cent from a year earlier.

Prices will Stabilize in 2009

In 2008, the average resale price is projected to reach $405,000, down over two per cent from the annual average of $414,066 in 2007. The high supply level this year has put downward pressure on prices and caused a re-pricing of real estate this year. The previous time the average price fell in Calgary was between 1994 and 1995 when the average price dropped by less than one per cent. However, supply levels appear to be past their peak and sales in the past two months have not dropped as much as the year-to-date decrease. The monthly average price

Figure 5

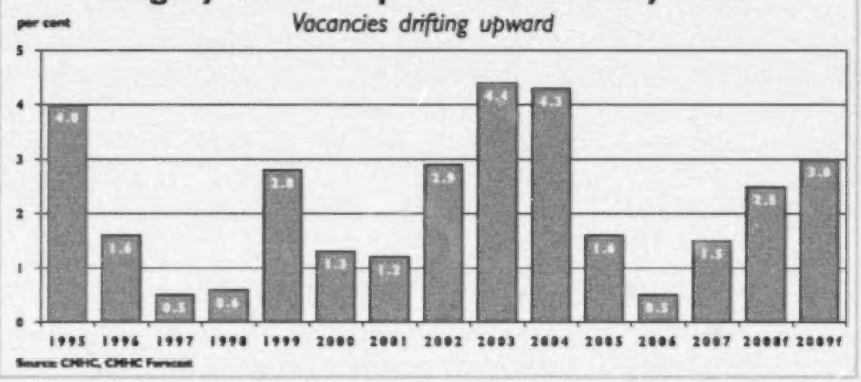


is expected to bottom sometime before next spring. The more affordable pricing will promote additional demand. As homes begin to sell faster, prices will stabilize. By year end 2009, the average price is expected to rise by 0.2 per cent to $406,000.

Figure 6

Calgary CMA – Apartment Vacancy Rate

Vacancies drifting upward



Source: CMHC, CMHC Forecast

RENTAL MARKET

Vacancy Rates Drift Upward

A moderation in net migration has allowed vacancy rates in Calgary to drift higher. Net migration reached a record in 2006 and this helped drive the vacancy rate down to a record low 0.5 per cent. In CMHC's October 2007 rental market survey, the average vacancy rate rose to 1.5 per cent. CMHC is forecasting the two-bedroom vacancy rate to increase to 2.5 per cent by October 2008. Competition from condominium rentals and the secondary rental market will move the apartment average vacancy rate to 3.0 per cent by October 2009. The rental market continues to move into more balanced market conditions and this will make finding rental accommodations easier for those looking.

Even though there has been zero purpose built market rental units this year, to the end of August, one cannot conclude that there is no new rental supply. Supply of rental units is indirectly coming from condominium units, and the secondary market of single detached, semi-detached, and accessory suites. CMHC's 2007 condominium apartment survey found 21 per cent of all condominium units surveyed were rented, up four percentage points from the survey done a year earlier. A record number of condominium units are being built in 2008. While many of these units were designated for homeownership, they will nonetheless go into the rental pool when completed. In Calgary, there are some new condominium projects under construction that are actively seeking investors to purchase units with the intent to rent at completion.

Average Rents Flat

A turnover survey done in conjunction with the Calgary Apartment Association showed that the primary reason for rental unit turnover was a movement towards homeownership. With condominium units becoming more affordable, the spread between renting and owning has narrowed. With vacancy rates projected to drift higher, landlords will want to hedge the risk of higher vacancies by limiting their rent increases. In October 2007, the average two-bedroom rent was $1,089. It is projected to rise to $1,140 by October 2008 and move up marginally to $1,150 by October 2009.

Conversions of Rental to Condominium Slowing

Housing market conditions this year are not as favourable as last year for converting apartment rental units to condominium units. Calgary's condominium market has been in buyers' market conditions this year. This means there are many condominium units for sale relative to buyers and pressure on price is downward. For converters,

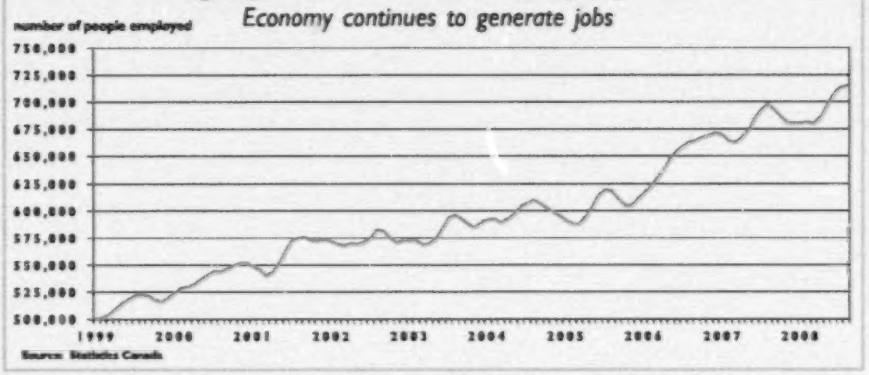
renovation cost still remain elevated and unlike the first half of last year when cost overruns could be passed on and built into the sale price, the market this year is finding it difficult to bear price increases.

This year, converters can't count on condominium prices staying level during the time they undertake conversion activity, thereby their return is uncertain and this is dampening the desire to convert. With average condominium prices lower relative to last year and renovation costs still elevated, the number of rental conversions is expected to drop. In 2007, the conversion of rental stock to condominium amounted to 1,917 units. Rental conversions amounted to 261 units according to CMHC's, spring 2008 Rental Market Survey, down 52 per cent from the spring of 2007.

Figure 7

Calgary CMA – Actual Employment

Economy continues to generate jobs



ECONOMY

Calgary's Economy Continues to Create Jobs

The economy continues to generate jobs and actual employment reached a record 715,300 in August 2008. Year-to-date August, employment has grown by 2.7 per cent from the comparable year-to-date 2007 period. Some of the employment growth was due to the increased participation rate and at 78.3 per cent in August it was the highest in more than twenty years. The growth rate represented an additional 18,100 workers of which 12,500 were full-time positions. In terms of demand for homeownership, the positive news is somewhat tempered because approximately 34 per cent of all full-time gains went to 15-to-24 year olds, not a traditionally strong home buying age. Also 31 per cent of all job gains were part-time positions. The seasonally adjusted unemployment rate was 3.6 per cent in August, indicative of a tight labour market.

Wages Still Rising

Average weekly earnings continue to be above the level of last year primarily due to gains during the first part of 2008. Year-to-date August, average weekly earning were 5.9 per cent higher as compared to the same period in 2007. The growth in income should continue to support consumer spending as will the announced elimination of the provincial heath care premiums on January 1, 2009. Calgary's expanding labour market characterized by a low unemployment rate and wage growth should continue to be attractive to workers seeking a new life in a growing city.

Net Migration to Improve into 2009

In 2007, net migration to the Calgary CMA amounted to 17,905. Some improvement is expected in 2008 as net migration is projected to have turned a corner to 18,000. In 2009, net migration is forecasted to rise by 2.8 per cent to 18,500. Inter-provincial migration has been a key component for housing demand in Alberta and the weakness in Ontario's manufacturing sector will likely encourage more people to

move from Ontario to Alberta. On the other hand, the outflow of migration from Alberta to Saskatchewan will likely slow as recent house price gains in Saskatchewan have reduced its relative housing affordability advantage. Calgary will continue to see its population grow from international migrants, especially, non-permanent residents on work permits. Many of the international migrants will stay in Calgary and as they become established will move from rental to homeownership.

MORTGAGE RATE OUTLOOK

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

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Forecast Summary Calgary CMA Fall 2008	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	31,569	33,027	32,176	25,000	-22.3	25,700	2.8
MLS® New Listings	39,821	44,725	54,202	57,000	5.2	51,500	-9.6
MLS® Average Price ($)	250,832	346,675	414,066	405,000	-2.2	406,000	0.2
New Home Market							
Starts:							
Single-Detached	8,719	10,482	7,777	4,300	-44.7	4,500	4.7
Multiples	4,948	6,564	5,728	6,800	18.7	2,500	-63.2
Starts - Total	13,667	17,046	13,505	11,100	-17.8	7,000	-36.9
Average Price ($):							
Single-Detached	315,796	353,662	474,511	575,000	21.2	564,000	-1.9
Median Price ($):							
Single-Detached	276,250	310,711	417,947	500,000	19.6	496,000	-0.8
New Housing Price Index (% chg.)	7.0	43.6	16.2	1.0	-	-2.5	-
Rental Market							
October Vacancy Rate (%)	1.6	0.5	1.5	2.5	-	3.0	-
Two-bedroom Average Rent (October) ($)	808	960	1,089	1,140	-	1,150	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-	6.31	-
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-	6.92	-
Annual Employment Level	605,900	655,100	680,600	698,500	2.6	707,600	1.3
Employment Growth (%)	1.2	8.1	3.9	2.6	-	1.3	-
Unemployment rate (%)	3.9	3.2	3.2	3.4	-	3.8	-
Net Migration [1]	22,639	29,164	17,905	18,000	0.5	18,500	2.8

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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